

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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June 17, 2009

Ms. Donna Fong
Manager, PCJPB Capital Accounting
Peninsula Corridor Joint Powers Board
1250 San Carlos Avenue
P.O. Box 3006
San Carlos, CA 94070-1306

Re: Peninsula Corridor Joint Powers Board – Indirect Cost Rate Proposal
File Number: P1590-0041

Dear Ms. Fong:

We have reviewed your request to allow the Peninsula Corridor Joint Powers Board (PCJPB) to bill the Department of Transportation (Department) indirect costs for fiscal year (FY) 2008/09. We also reviewed the Federal Transit Administration (FTA) approval letter dated October 6, 2002, approving the FY 2002/03 Cost Allocation Plan (Plan) for the San Mateo County Transit District. This plan included the proposed rate for the PCJPB for FY 2002/03. It is our understanding that the FTA relies on FTA Circular 5010.1D in its approval of indirect cost allocation plans for its cognizant agencies. The FTA interpretation of the Office Management and Budget Circular A-87, codified as 2 Code of Federal Regulations (CFR) Part 225, allows the FTA to extend their approval of cost allocation plans to future periods.

The Department's Audits and Investigations (A&I) believes that PCJPB's calculation of the carry forward included in the FY 2008/2009 indirect cost rate proposal (ICRP) is not in compliance with 2 CFR Part 225. It is also possible that all prior year ICRP's include this incorrect calculation. The PCJPB's carry forward calculation is based on prior year's projected revenue and indirect costs instead of being based on two-year prior approved ICRP fixed rate, actual direct labor and actual indirect costs. The carry forward calculation for FY 2008/2009 should be as follows: FY 2006/2007 Actual Direct Salary multiplied by the FY 2006/2007 Approved Fixed Rate equals the Approved Recovery. FY 2006/2007 Actual Indirect Costs less the Approved Recovery equals the over or under recovery of costs to be included in the FY 2008/2009 ICRP.

However, since the FTA is your cognizant agency the Department defers to FTA the approval of your FY 2008/09 ICRP and will allow the PCJPB to bill indirect costs at the rate of 114.48 percent.

Ms. Donna Fong
June 17, 2009
Page 2

Please retain a copy of this letter with your ICRP. Copies of this letter were sent to the Department's District 4, the Department's Division of Accounting, the Federal Highway Administration, and the FTA. If you have any questions, please contact Amada Maenpaa, Audit Manager at (916) 323-7868.

Sincerely,

MARYANN CAMPBELL-SMITH
Chief, External Audits

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
- Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
- Leslie T. Rogers, Regional Administrator, Federal Transit Administration
- Dan Mundy, Branch Chief, Rural Transit and Procurement, Division of Mass Transportation
- Jenny Tran, Associate Accounting Analyst, Local Assistance Accounting Branch, Division of Accounting
- David Saia, Transportation Engineer, Local Assistance Policy & Quality Assurance, Division of Local Assistance
- Sylvia Fung, Local Assistance Engineer, Planning and Local Programs, District 4